

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SP-03 AID-20 EB-12 NSC-07 RSC-01

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FM AMEMBASSY MANILA
TO SECSTATE WASHDC 7356
INFO AMCONSUL HONG KONG
CINCPAC HONOLULU HI

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E.O. 11652: N/A
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SUBJECT: REASSESSMENT OF PHILIPPINE ECONOMY

REF: MANILA 10736

SUMMARY: GOP OFFICIALS HAVE IN PAST FEW WEEKS REVISED GOVERNMENT ESTIMATES OF PHILIPPINE ECONOMY'S RECENT PERFORMANCE AND HAVE INDICATED NEAR-TERM OUTLOOK MAY NOT BE AS GOOD AS THEY HAD EARLIER HOPED. ASPECTS OF ECONOMY'S PERFORMANCE INVOLVED IN REASSESSMENT INCLUDE OVERALL GROWTH RATE, BALANCE OF PAYMENTS AND INFLATION. THIS MESSAGE REVIEWS HIGHLIGHTS OF REASSESSMENT IN CONTEXT OF EMBASSY'S PREVIOUS REPORTING ON ECONOMY (REFTEL). END SUMMARY.

1. NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY (NEDA) HAS NOW ANNOUNCED GROSS NATIONAL PRODUCT FOR FIRST SEMESTER OF 1974 OF PESO 19,909 MILLION IN 1967 PRICES. THIS
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REPRESENTS 2.9 PERCENT GROWTH OVER PREVIOUS SEMESTER

AND 7.9 PERCENT GROWTH OVER SAME SEMESTER OF 1973. THIS RATE COMPARES WITH THE SEVER PERCENT EARLIER ANTICIPATED BY THE NEDA DIRECTOR GENERAL, GERARDO SICAT, AND THE SIX TO EIGHT PERCENT ESTIMATES NEDA STAFFERS WERE WORKING WITH IMMEDIATELY FOLLOWING THE SEMESTER'S END. THE ECONOMY'S RECENT PERFORMANCE HAS CLEARLY FALLEN SHORT OF EXPECTATIONS, EVEN THOUGH ITS STRONG IMPROVEMENT IN THE SECOND SEMESTER OF CALENDAR 1973 OVER ITS POOR RECORD IN THE CORRESPONDING SEMESTER OF 1972. RESULTS IN AN IMPRESSIVE ANNUAL GROWTH RATE OF 7.4 PERCENT FOR FISCAL 1974. THE GROWTH RATE REASSESSMENT, MOREOVER, REACHES BACK TO 1973. LATER FIGURES FOR CALENDAR 1973 HAVE CAUSED THE NEDA TO LOWER ITS ESTIMATE FOR REAL GNP IN 1973 TO PESO 38,315 MILLION AND OF THE 1973 GROWTH RATE TO 8.8 PERCENT.

2. SECTORAL PERFORMANCE IN THE ECONOMY VARIED WITH CONSTRUCTION GROWING AT 12 PERCENT AGRICULTURE 10 PERCENT, MINING 6 PERCENT, MANUFACTURING 4 PERCENT, COMMERCE 2 PERCENT AND FORESTRY DECLINING NEARLY 50 PERCENT. THE EFFECTS OF INFLATION ON REAL LEVELS OF CONSUMER DEMAND APPEAR TO BE STRONGER THAN EARLIER REALIZED, AND THE SLOWDOWNS IN LOGGING AND TEXTILES ARE FULLY AS SEVERE AS EXPECTED. IN ADDITION, A MAJOR COPPER PRODUCER HAD TO SUSPEND PRODUCTION TEMPORARILY BECAUSE SMELTING FACILITIES WERE NOT AVAILABLE (PRINCIPAL BUYER IN U.S. HAS BEEN ON STRIKE).

3. SOURCES AT NEDA SAY THE GOVERNMENT IS HOPEFUL THAT THE NORMALLY STRONG SECOND-HALF PERFORMANCE OF THE ECONOMY AND STRENGTHENED EXTERNAL DEMAND WILL ENABLE THE ECONOMY TO ACHIEVE A 6.5 PERCENT ANNUAL GROWTH RATE IN 1974. WHETHER THE GROWTH RATE FOR THE YEAR CAN BE PUSHED ABOVE 6.0 PERCENT IN THE ABSENCE OF AN UNEXPECTED RESURGENCE IN EXTERNAL DEMAND IS DOUBTFUL. HOWEVER, AN ANTICIPATED GROWTH RATE OF 4 TO 6 PERCENT SEEMS REASONABLE AND WOULD BE CREDITABLE ACHIEVEMENT IN THE CIRCUMSTANCES PRESENT.

4. THE DIMENSIONS OF THE ANTICIPATED PHILIPPINE BALANCE OF PAYMENTS DEFICIT IN 1974 HAVE GOROWN WITH THE AVAILA-

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BILITY OF ADDITIONAL DATA. CUSTOMS FIGURES FOR THE FIRST SEMESTER SHOW A TRADE DEFICIT OF \$128 MILLION AS COMPARED TO \$15 MILLION ON A PAYMENTS BASIS, WITH MOST OF THE DIFFERENCE ATTRIBUTABLE TO SHORT TERM SUPPLIERS'S CREDITS FOR PETROLEUM AND OTHER IMPORTS. THE PAYMENTS STATISTICS ON THE TRADE ACCOUNT SHOW A DEFICIT OF \$130 FOR JULY AND AUGUST. THE CENTRAL BANK IS NOW PROJECTING IMPORTS OF \$3 BILLION FOR THIS YEAR. WITH COCONUT OIL AND COPPER

PRICES NOT EXPECTED TO FALL MUCH BELOW PRESENT LEVELS
(COCONUT HAS FIRMED SOMEWHAT) EXPORT EARNING OF \$2.5 TO
2.6 BILLION ARE PREDICTED.

5. WHILE THE GOVERNMENT CAN STILL COUNT ON AN INVISIBLE
SURPLUS FOR THE YEAR OF MORE THAN \$200 MILLION FROM SUCH
SOURCES AS U.S. EXPENDITURES FOR VETERAN'S BENEFITS AND
MILITARY BASES, TOURISM AND EMIGRANT REMITTANCES, ADDI-
TIONAL BORROWING WILL BE NECESSARY TO FINANCE THE TRADE
DEFICIT AND TO PERMIT RESERVES TO RAISE WITH THE RISE IN
TRANSACTION LEVELS. TOTAL EXTERNAL DEBT PROBABLY WILL
RISE TO AROUND \$3.0 BILLION BY THE END OF THIS YEAR.

6. THE PROSPECT OF FURTHER GROWTH IN PHILIPPINE EXTERNAL
DEBT IS NEITHER NEW NOR MATERIALLY DIFFERENT FROM EMBASSY
CALCULATIONS AND THE DEBT SERVICE BURDEN ANTICIPATED
WILL NOT BE OPPRESSIVE. THE STRUCTURE OF THE ADDITIONAL
DEBT IS LARGELY FAVORABLE; MUCH WILL COME FROM OFFICIAL
ASSISTANCE, THE RECENT \$50 MILLION REFINANCING FOR
MERALCO WAS ON TEN-YEAR TERMS AND THE IMPORT CREDIT LINES
ARE FOR FIVE YEARS. THE CRITICAL QUESTION FOR THE
PHILIPPINE BALANCE OF PAYMENTS WILL BE THE TIMING OF

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WORLD ECONOMIC RECOVERY. IF THIS DOES NOT OCCUR PRIOR TO LATE 1975, THE GOVERNMENT MAY HAVE TO RESORT TO OTHER MEASURES OF SAFEGUARDING THE ECONOMY'S EXTERNAL POSITION. IN THE MEANTIME, THE PRESSURE ON THE BALANCES OF PAYMENTS UNDERLINES THE NEED FOR CONTINUED CONSULTATIVE GROUP ASSISTANCE TO THE PHILIPPINES.

7. A FEW SIGNS OF DECELERATING INFLATION ARE NOW APPEARING. THE CENTRAL BANK'S INDEX OF WHOLESALE PRICES DECLINED IN AUGUST FOR THE FIRST TIME SINCE DECEMBER 1973. IN 1.74 PERCENT RISE IN ITS CONSUMER PRICE INDEX THIS AUGUST WAS ABOUT ONE-THIRD THE 5.6 PERCENT RISE IN AUGUST OF 1973. AND ABOUT HALF THE AVERAGE MONTHLY INCREASE OVER THE PAST YEAR. THE 12 MONTH COMPARISON OF CONSUMER PRICES IN AUGUST WAS 36 PERCENT, A DECLINE OF 5 PERCENT FROM THE JULY FIGURE OF 40. THE SLOWING OF PRICE INCREASES APPEARED BROADLY BASED, BUT DECLINES IN PRICES WERE EXCEPTIONS.

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8. INFLATION PROSPECTS REMAIN UNCERTAIN. THE SLACKENING OF EXPORT DEMAND, THE GOOD AGRICULTURE PROSPECTS AND THE SEPTEMBER 1ST REDUCTION IN POWER RATES WILL BE STABILIZING FACTORS. HOWEVER, IMPORT PRICES WILL CONTINUE TO RISE. FURTHER DOMESTIC WAGE AND SALARY ADJUSTMENTS MUST BE EXPECTED, AND GOVERNMENT SPENDING WILL BE HIGH. THE GOVERNMENT BUDGET CALLS FOR EXPENDITURES OF PESO 17 BILLION DURING THE FISCAL YEAR WHICH WOULD AMOUNT TO ABOUT 18 PERCENT OF ANTICIPATED GNP IN CURRENT PRICES. GOVERNMENT OFFICIALS PREDICT REVENUES WILL GROW SLOWLY IF AT ALL AND INDICATE BORROWINGS BY THE CENTRAL GOVERNMENT MAY AMOUNT TO PESO 4 BILLION FOR THE YEAR.

9. ALTHOUGH THE MAJOR SHARE OF THE GOVERNMENT'S BORROWING IS EXPECTED TO COME FROM ABROAD OR FROM PRIVATE DOMESTIC SOURCES IN ROUGHLY EQUAL PROPORTIONS AS BEST CAN BE JUDGED, THE MONETARY SECTOR WILL BE EXPANDED GREATLY OVER THE PREVIOUS YEAR. THE MONEY SUPPLY IN AUGUST WAS 30 PERCENT ABOVE ITS LEVEL OF A YEAR AGO AND TOTAL DOMESTIC CREDITS IN AUGUST AMOUNTED TO NEARLY PESO 24 BILLION, ABOUT 39 PERCENT HIGHER THAN IN AUGUST OF LAST YEAR. MONETARY AUTHORITIES ARE CONTINUING TO KEEP A CLOSE WATCH OVER DOMESTIC LIQUIDITY: THROUGH THE ISSUANCE OF ITS CERTIFICATES OF INDEBTEDNESS THE CENTRAL BANK WITHDREW PESO 200 MILLION FROM CIRCULATION IN AUGUST AND INTEREST RATE INDICATORS REFLECTED NORMAL CREDIT AVAILABILITY.

10. GOVERNMENT OFFICIALS CONTINUE TO STATE POLICY WILL BE DIRECTED TO MAINTAINING ENOUGH LIQUIDITY TO MEET PRIORITY DEVELOPMENT NEEDS. THE GOVERNMENT IS BELIEVED PREPARED TO ACCEPT INFLATION ON THE ORDER OF 10 PERCENT FOR THE SECOND SEMESTER OF 1974 AS COMPARED WITH THE PRE-DEEDING SEMESTER. WHILE ITS POLICY HAS OBVIOUS RISKS, THE ECONOMY IS RESONABLY WELL FITTED TO FACE THEM, AND THE IMPORTANCE OF MAINTAINING GORWTH UNQUESTIONED. THE SLOWDOWN OF THE ECONOMY ARGUES FOR THE POLICY BUT TIME WILL TELL WHETHER THE PLANNED STIMULUS WILL BE EXCESSIVE.
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